

Fiscal Note

Fiscal Services Division



SF 34 – Retirement Income Tax Exemption (LSB1238XS)
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Fiscal Note Version – New

Description

[Senate File 34](#) exempts retirement income from the State income tax through a five-year phase-out process. For tax year (TY) 2017, 20.0% of retirement pay subject to income taxation under current law would be excluded. The exclusion percentage increases each tax year through TY 2021. For TY 2021 and after, all retirement income would be exempt from Iowa income tax. The exemption schedule is:

- TY 2017 = 20.0%
- TY 2018 = 40.0%
- TY 2019 = 60.0%
- TY 2020 = 80.0%
- TY 2021 and after = 100.0% exempt from income tax

The bill also makes changes to how retirement and Social Security income is included in the calculation of Iowa's income tax filing thresholds.

Assumptions

- Iowa's current pension exclusion of \$6,000 (single) and \$12,000 (married) is available for pension recipients meeting specified age, disability, or insurable interest requirements. This bill applies to all pension income, not just the pensions received by persons meeting the eligibility requirements contained in the current, limited pension exemption.
- The following income sources are considered retirement income:
 - Defined benefit and defined contribution private and public pensions
 - Annuities
 - Self-employed retirement plans
 - Plans maintained and/or contributed to by an employer
 - Deferred compensation
 - Individual Retirement Account (IRA) distributions
- For TY 2017, 20.0% of pension income not exempt from income tax under existing law is made exempt, and the pension income excluded under this provision is not added back to income in determining the application of Iowa's income filing thresholds.
- For TY 2018, 40.0% is excluded.
- For TY 2019, 60.0% is excluded.
- For TY 2020, 80.0% is excluded.
- For TY 2021 and after, all pension income is excluded and no pension income is added back to income in determining the application of Iowa's income filing thresholds. Also, Social Security income (exempt from Iowa income tax under current law) will no longer be added back to income in determining Iowa's income filing thresholds.
- The direct income tax impact of the changes is estimated by the Department of Revenue utilizing the Income Tax Micro Model.

- Reducing income subject to the State individual income tax also reduces the amount of revenue raised by the local option income surtax for schools. The impact on surtax revenue is estimated to be 3.1% of the State income tax impact.
- Any additional Department of Revenue tax administrative costs will be minimal.

Fiscal Impact

Exempting pension and other retirement income from the State income tax, and excluding pension and Social Security income from the filing thresholds calculation, will reduce net General Fund revenue by the estimated amounts specified in the right-hand columns of the following table. Negative impacts beyond FY 2022 continue, with impacts increasing with the rate of increase in pension incomes received by lowans.

Projected General Fund Impact			
Dollars in Millions			
<u>Income Tax Reduction</u>		<u>Fiscal Year Impacts</u>	
TY 2017	\$ -76.7	FY 2017	\$ -2.1
TY 2018	-151.3	FY 2018	-132.0
TY 2019	-218.1	FY 2019	-175.7
TY 2020	-275.5	FY 2020	-237.6
TY 2021	-336.0	FY 2021	-294.9
TY 2022	-347.8	FY 2022	-340.0

The exclusion also reduces the amount of revenue generated by the local option income surtax for schools. The reduction is estimated to be \$2.4 million for TY 2017, growing to \$10.9 million for TY 2022.

Source

Iowa Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
